

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6122

BILL NUMBER: HB 1179

NOTE PREPARED: Nov 18, 2014

BILL AMENDED:

SUBJECT: Local Option Income Taxes.

FIRST AUTHOR: Rep. Karickhoff

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that an individual who has a principal place of employment or business in a county other than the individual's county of residence shall pay a County Adjusted Gross Income Tax (CAGIT), County Option Income Tax (COIT), or County Economic Development Income Tax (CEDIT) imposed by the county where the individual maintains the principal place of employment or business at a rate that is one-fourth of the sum of certain tax rates imposed on residents of the county under those taxes. The bill excludes certain CAGIT rates, COIT rates, and CEDIT rates for capital improvements from the calculation of the tax rate imposed on the nonresident individual.

It provides a credit against any tax liability imposed by the individual's county of residence equal to the amount of the tax paid to the county where the individual has the individual's principal place of employment or business.

Effective Date: January 1, 2016.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the provisions in the bill. The DOR's current level of resources should be sufficient to implement these changes.

State Budget Agency (SBA): The SBA will incur additional expenses to compute and administer the certified distribution process. The bill requires the SBA to adjust the counties' certified distributions to account for the provisions within the bill by no later than October 2016. The SBA's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill could result in a \$104.4 M shift in local option income tax (LOIT) revenue, affecting all counties imposing these taxes. The bill imposes a nonresident LOIT on taxpayers whose principal place of business or employment is outside of the county where they live. The bill also allows taxpayers to claim a credit against their resident LOIT liability. The offset credit equals the amount of nonresident LOIT paid. Because of the offset credits, the bill may reduce the LOIT revenue received by 65 counties. The revenue impact will begin in CY 2016 as the SBA adjusts each county's certified distribution before October 2016. The nonresident LOIT revenue will be completely integrated into the standard certified distribution process beginning in CY 2017.

The actual reallocation of LOIT revenue will depend upon the taxable income of individuals whose principal place of employment or business is in a county other than their county of residence beginning after December 31, 2015.

Additional Information - The bill defines any taxpayer who is not a resident county taxpayer of a specific county as a nonresident county taxpayer. Currently, a taxpayer is not considered a nonresident county taxpayer anywhere in the state if the taxpayer resides in a county that imposes a LOIT. The nonresident LOIT rate equals one quarter of the sum of certain resident LOIT rates. The rates levied specifically for correctional facilities or other capital projects are not included in the determination of the nonresident county income tax rate.

The bill also allows taxpayers to claim a credit against their total resident LOIT liability. The credit equals the amount of nonresident LOIT taxes paid.

The estimates are the result of a model developed using tax year 2012 individual income tax returns, U.S. Census data, and LOIT rates effective January 1, 2015, that were certified as of November 7, 2014. The estimates account for the additional revenue a county would receive from the nonresident LOIT rate and the revenue loss to that county from credits allowed for nonresident LOITs paid by county residents. The model also excludes residents of other states who currently pay LOIT at a nonresident rate. The potential revenue that could be generated by this bill will vary depending on changes in employment and commuting patterns. Any changes in LOIT revenue resulting from this bill will be accounted for through certified distributions as determined by the State Budget Agency.

The table below provides estimates by county based upon the bill's provisions.

County	Estimated Net Impact	County	Estimated Net Impact	County	Estimated Net Impact
Adams	(\$93,477)	Hendricks	(\$6,432,093)	Pike	(\$200,954)
Allen	\$1,237,660	Henry	(\$700,244)	Porter	(\$3,746,181)
Bartholomew	\$1,009,885	Howard	\$842,202	Posey	(\$268,086)
Benton	(\$71,006)	Huntington	(\$385,412)	Pulaski	\$149,689
Blackford	(\$189,605)	Jackson	\$95,374	Putnam	(\$453,372)
Boone	(\$4,329,921)	Jasper	\$71,642	Randolph	(\$157,885)
Brown	(\$351,210)	Jay	\$39,274	Ripley	\$215,511
Carroll	(\$495,079)	Jefferson	(\$163,599)	Rush	(\$245,038)
Cass	\$43,379	Jennings	(\$211,682)	St. Joseph	(\$297,778)
Clark	\$1,139,455	Johnson	(\$6,202,553)	Scott	(\$161,763)
Clay	(\$231,838)	Knox	\$33,269	Shelby	(\$656,617)
Clinton	(\$67,828)	Kosciusko	(\$314,952)	Spencer	(\$223,765)
Crawford	(\$111,980)	LaGrange	(\$321,454)	Starke	(\$356,041)
Daviess	(\$22,236)	Lake	\$4,302,681	Steuben	(\$239,807)
Dearborn	(\$117,987)	LaPorte	(\$408,028)	Sullivan	(\$242,819)
Decatur	\$173,291	Lawrence	(\$284,191)	Switzerland	(\$24,917)
DeKalb	\$392,045	Madison	(\$680,961)	Tippecanoe	\$823,675
Delaware	(\$146,047)	Marion	\$42,012,864	Tipton	(\$279,485)
Dubois	\$370,318	Marshall	(\$433,165)	Union	(\$61,976)
Elkhart	\$2,165,310	Martin	\$588,801	Vanderburgh	\$2,299,530
Fayette	(\$57,020)	Miami	(\$312,741)	Vermillion	(\$243,362)
Floyd	(\$339,479)	Monroe	\$60,464	Vigo	\$715,898
Fountain	(\$228,094)	Montgomery	\$184,384	Wabash	\$117,600
Franklin	(\$332,317)	Morgan	(\$1,924,956)	Warren	(\$79,508)
Fulton	(\$95,533)	Newton	(\$307,681)	Warrick	(\$1,872,141)
Gibson	(\$72,917)	Noble	(\$335,871)	Washington	(\$298,622)
Grant	\$540,359	Ohio	\$6,837	Wayne	\$28,737
Greene	(\$412,357)	Orange	(\$39,558)	Wells	(\$154,339)
Hamilton	(\$17,771,680)	Owen	(\$337,392)	White	(\$260,431)
Hancock	(\$2,626,070)	Parke	(\$146,437)	Whitley	(\$590,207)
Harrison	(\$380,568)	Perry	(\$57,821)		

*Source: LSA Income Tax Database

State Agencies Affected: Department of State Revenue; State Budget Agency.

Local Agencies Affected: Counties that impose a local option income tax.

Information Sources: LSA Income Tax Database; U.S. Census Bureau, *Current Population Survey-Table F-7: Type of Family, All Races by Median and Mean Income: 1947 to 2013*, September 16, 2014.

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